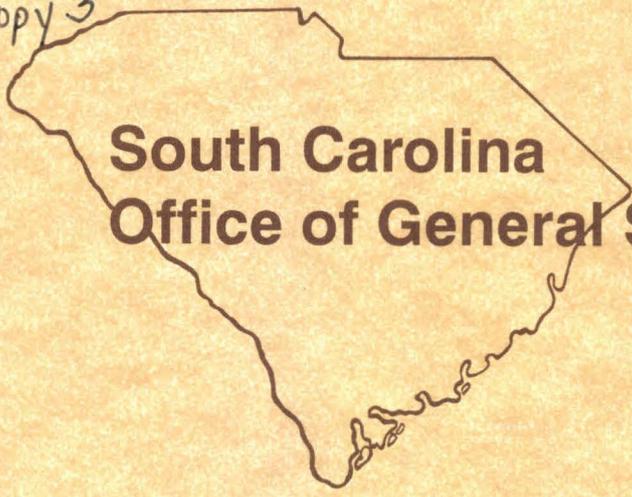


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Office of General Services**

PROCUREMENT AUDIT AND CERTIFICATION

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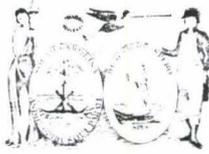
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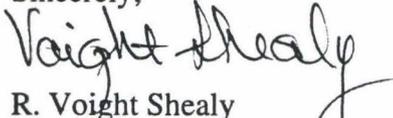
November 20, 1996

Ms. Helen T. Zeigler, Director
Office of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Helen:

I have attached the University of South Carolina's procurement audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the University of South Carolina a three year certification as noted in the audit report.

Sincerely,


R. Voight Shealy
Interim Materials Management Officer

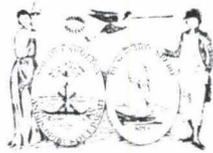
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**UNIVERSITY OF SOUTH CAROLINA
PROCUREMENT AUDIT REPORT
JULY 1, 1993 - JUNE 30, 1996**

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RAYMOND L. GRANT
ASSISTANT DIRECTOR

October 2, 1996

Mr. R. Voight Shealy
Interim Materials Management Officer
Office of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We have examined the procurement policies and procedures of the University of South Carolina for the period July 1, 1993 through June 30, 1996. As part of our examination, we studied and evaluated the system of internal control over procurement transactions to the extent we considered necessary.

The evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and University procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the University of South Carolina is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process,

that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions, as well as our overall examination of the University procurement policies and procedures, were conducted with professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report which we believe need correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place the University of South Carolina in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Sincerely,



Larry G. Sorrell, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the University of South Carolina. Our on-site review was conducted May 30, - July 15, 1996, and was made under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

The examination was directed principally to determine whether, in all material respects, the internal controls for the procurement system were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally our work was directed toward assisting the University of South Carolina in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which include:

- (1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State
- (2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State
- (3) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process

BACKGROUND

Section 11-35-1210 of the South Carolina Consolidated Procurement Code states:

The (Budget and Control) Board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The Division of General Services shall review the respective governmental body's internal procurement operation, shall verify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the Board those dollar limits for the respective governmental body's procurement not under term contract.

On December 14, 1993, the Budget and Control Board granted the University of South Carolina the following procurement certifications.

<u>Category</u>	<u>Limit</u>
Goods and Services	\$ 150,000 per commitment
Consultants	150,000 per commitment
Information Technology in accordance with the approved Information Technology Plan	150,000 per commitment
Construction	250,000 per commitment
Revenue Generating Management Services	15,000,000 per commitment

Our audit was performed primarily to determine if recertification is warranted. Additionally, the University of South Carolina requested the following increased certification limits.

<u>Category</u>	<u>Limit</u>
Goods and Services	\$ 200,000 per commitment
Consultants	200,000 per commitment
Information Technology in accordance with the approved Information Technology Plan	200,000 per commitment
Construction	500,000 per commitment
Revenue Generating Management Services	15,000,000 per commitment

SCOPE

We conducted our examination in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. Our examination encompassed a detailed analysis of the internal procurement operating procedures of the University of South Carolina and its related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

We selected judgmental samples for the period July 1, 1993, through June 30, 1996, of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. Specifically, the scope of our audit included, but was not limited to, a review of the following:

- (1) All sole source, emergency and trade-in sale procurements for the period July 1, 1993 through June 30, 1996
- (2) Procurement transactions for the period July 1, 1993 through June 30, 1996 as follows:
 - a) 161 payments, each exceeding \$1,500
 - b) A block sample of 500 numerical purchase orders
 - c) An additional test of thirteen sealed bids
 - d) Two revenue generating contracts
- (3) Eleven professional service contracts and fourteen construction contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) Minority Business Enterprise Plans and reports for the audit period.
- (5) Information technology plans for fiscal years 93/94, 94/95 and 95-98
- (6) Internal procurement procedures manual
- (7) Surplus property procedures

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the University of South Carolina, hereinafter referred to as the University, produced findings and recommendations as follows.

	<u>Page</u>
I. <u>Unauthorized Contracts</u>	7
The University did not obtain the approval from the State Engineer's Office on one contract for professional services. Another consultant contract was not a properly processed sole source.	
II. <u>Travel Costs Not Always Considered In Procurements</u>	7
The University did not always consider reimbursed consultant travel expenses when determining the value of the procurement.	
III. <u>Inappropriate Contract Renewals</u>	8
Two instances were noted where contracts were renewed without any consideration being placed on the procurement actions.	
IV. <u>Sole Source Procurements</u>	8
During our sole source review we noted where the University failed to use the standard equipment agreement on two separate procurements for the rental of equipment.	

RESULTS OF EXAMINATION

I. Unauthorized Contracts

The University procured a professional service as defined in Section 11-35-2910 of the Code and did not obtain the approval from the State Engineer's Office as required in Section 11-35-3230 (2) of the Code.

DEV 169293 was issued on March 17, 1994 for \$2,851 for professional services which included engineering and surveying services at Bell Camp in Richland County. Since the approval of the State Engineer's Office was not obtained, the procurement was unauthorized as defined in Regulation 19-445.2015. The University must seek ratification from the Materials Management Officer pursuant to Regulation 19-445.2015.

We recommend the University comply with Section 11-35-3230 of the Code.

On another procurement, the University issued DEV 61146 for \$2,500 on September 26, 1995 for consultant services that were rendered from February 1, 1991 to September 11, 1995. A sole source justification was attached to the DEV. However, the sole source justification was prepared in 1991 and identified the grant time as December 10, 1990 to January 31, 1991. Since the services on DEV 61146 were beyond the scope of the justification, the University should have prepared a new justification for the services after January 31, 1991. Because the new justification was not prepared, the contract was unauthorized and requires ratification from the University President in accordance with Regulation 19-445.2015.

II. Travel Costs Not Always Considered In Procurements

During our test of consultant transactions, we noted that the University did not always consider reimbursed consultant travel expenses when determining the value of the procurement. The value of the procurement is used to determine the most appropriate method of procurement. Since international travel is sometimes involved, travel costs can be considerable and may very well impact the appropriate method of procurement.

Currently, reimbursement of consultant travel expenses is not authorized through a purchase order document. The travel expenses are processed through a document called a Travel Reimbursement Voucher which is processed through a

separate office at the University. The Procurement Office is not involved with the travel expense.

We recommend that requisitions sent to the Procurement Office for consultant services include an estimate for reimbursable consultant travel expenses. All costs associated with the hiring of a consultant must be considered in determining the most appropriate method of procurement. These costs should be included on the purchase order.

III. Inappropriate Contract Renewals

Two instances were noted where contracts were renewed without any consideration being placed on the procurement actions. In both instances the contracts were originally procured through the sole source method for a one year period. At the end of that year the University elected to renew these contracts and, in doing so, failed to process the new sole source determinations. This occurred on purchase orders 74203 and 34672 in the respective amounts of \$6,638 and \$31,511 for two different consultants for technical assistance in Bulgaria.

Further, the purchase orders did not include enough detail to allow Accounts Payable to know what the hourly rates were for these consultants. We had to research the grant documents to verify the hourly rate information.

We recommend for contract renewals when sole source procurements are involved, the University should either prepare for approval a sole source determination each year or one sole source determination should be prepared to cover the entire contract period for each contract. Further, to ensure that correct prices are paid on invoices, purchase orders should contain sufficient detailed information to include at least unit prices.

IV. Sole Source Procurements

During our sole source review we noted where the University failed to use the standard equipment agreement on two separate procurements for the rental of equipment. This occurred on purchase order 94485 for \$16,263 and purchase order 3731 for \$16,500. A change order was later issued increasing purchase order 3731 by another \$7,030. Regulation 19-445.2152 requires the use of the standard equipment agreement when the length of the lease is more than ninety days in

duration or the value of the equipment exceeds \$10,000. Both leases were for equipment valued more than \$10,000.

We recommend the University use the standard equipment agreement as required under Regulation 19-445.2152.

CERTIFICATION RECOMMENDATIONS

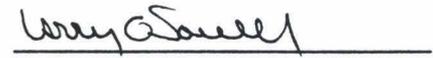
As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, we believe, will in all material respects place the University of South Carolina in compliance with the South Carolina Consolidated Procurement Code.

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we recommend the University of South Carolina be recertified to make direct agency procurements for three years up to the limits as follows:

<u>Category</u>	<u>Recommendation</u>
Goods and Services	\$ 200,000 per commitment*
Consultants	200,000 per commitment*
Information Technology in accordance with the approved Information Technology Plan	200,000 per commitment*
Construction	500,000 per commitment*
Revenue Generating Management Services	15,000,000 per commitment*

*This means the total potential purchase commitment to the State whether single year or multi-term contracts are used.


Robert J. Aycok, IV
Audit Manager


Larry G. Sorrell, Manager
Audit and Certification



October 22, 1996

JOHN L. FINAN
VICE PRESIDENT FOR BUSINESS AND FINANCE

Mr. Larry G. Sorrell, Manager
Audit and Certification
State Budget and Control Board
1201 Main Street, Suite 600
Columbia, South Carolina 29201

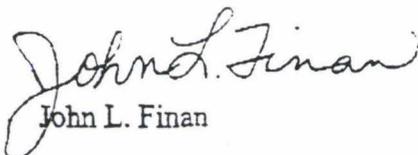
Dear Larry:

I am responding to your October 16, 1996 letter regarding the draft Procurement Certification Audit Report. First, let me say thanks to you and your fine staff for all of your excellent work during this audit. I am pleased with the positive outcome of the audit and the recommended increase in procurement certification for USC. I have been advised by Scott Reynolds that we are moving to address all necessary corrective action and recommendations listed in the report, including the requested ratification items.

It is my understanding that the certification level for construction at Clemson University is \$500,000. I believe the University of South Carolina has proven our ability in the construction area to warrant an equal, if not greater, amount for our construction level. I am, therefore, requesting that the certification level for construction at USC be raised to \$500,000 also.

Again, let me say that it was a pleasure working with you and your staff, and I look forward to a continued positive working relationship.

Sincerely,

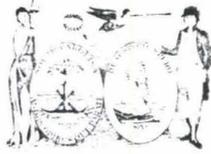

John L. Finan

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RAYMOND L. GRANT
ASSISTANT DIRECTOR

November 20, 1996

Mr. R. Voight Shealy
Interim Materials Management Officer
Materials Management Office
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We have reviewed the response from the University of South Carolina to our audit report July 1, 1993 - June 30, 1996. Also we have followed the University's correction action during and subsequent to our field work. We are satisfied that the University has corrected the problem areas and the internal controls over the procurement system are adequate.

Therefore, we recommend the Budget and Control Board grant the University of South Carolina the certification limits noted in our report for period of three years.

Sincerely,

Handwritten signature of Larry G. Sorrell in cursive.

Larry G. Sorrell, Manager
Audit and Certification

LGS/tl

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